

## VI. Business-Type Activity Reporting – The Accrual Basis and Segment Reporting

**Business – Type Activity, (BTA,) Reporting** or reporting on the proprietary basis of accounting is not new to the Component units of the Commonwealth. Since NCGA 1 was released, enterprise entities have used the proprietary basis of accounting. Because of this familiarity, the transition and implementation of GASB 34 should not be difficult.

The following statements will be required from your entity in the implementation, all of which are described in section III to this guide:

- Management’s Discussion and Analysis – (Required Supplementary Information)
- Statement of Net Assets or a traditional Balance Sheet
- Statement of Revenues, Expenses and Changes in Net Assets (*note name changes*)
- Direct Method Statement of Cash Flows
- Notes to the Financial Statements
- Required Supplementary or Statistical Information other than the MD & A

**The Comptroller in conjunction with the component units have agreed that most component units are required to implement the Business-Type model due to the following factors:**

- The BTA model is the model that best relates the financial condition of the component unit as the flow of funds is based on the accrual basis of accounting.
- Lack of taxing authority directly by most component units

The BTA format is the format that the Commonwealth and its auditors have agreed upon would be best suited for most component units. Component units in the Commonwealth largely operate consistently with the definition of a Special Purpose Government engaged only in business type activities. **Furthermore, component units are precluded from using the governmental format that the Commonwealth uses, unless your entity discusses the reasons that you believe that the use of the governmental model is appropriate and you receive concurrence from the Comptroller’s Office in writing. Therefore, if your entity has been using the governmental measurement focus and basis of accounting, you must convert to the BTA model unless you receive this concurrence.**

### a. The Accrual Basis of Accounting and GASB 33

The business – type model uses the accrual basis of accounting. It should be noted that GASB Statement 33, *Accounting and Financial Reporting for Nonexchange transactions* has somewhat modified the accrual basis of accounting for governments.

The accrual basis of accounting recognizes revenues when they are earned *and* measurable and expenses in the period incurred, if measurable. Therefore, receipts and disbursements are recorded throughout the year. Those receipts that are earned as of June 30, but not yet received are revenue and receivables. Those expenses that are incurred, but not yet paid as of June 30, are recognized as expenses and payables. As stipulated in section IV to this guide, receivables and payables should be further classified as current and non-current.

## **b. Segment Reporting**

Paragraphs 122 and 123 in GASB 34 report on segments. On December 29, 2000, the Board released an exposure draft of an omnibus amendment to GASB 34. Note that the amendment *did not* include the words “never mind!” A segment was redefined as “an identifiable activity (or *grouping of activities*) reported as or within an enterprise fund or an other stand-alone entity for which one or more revenue bonds or other revenue-backed debt instruments (such as certificates of participation) are outstanding.”<sup>13</sup> Segments have specific revenues, expenses, gains and losses, assets and liabilities streams that are required to be accounted for separately, frequently under separate bond indentures. There are a few prime examples of segments within a entity:

- Where a bond issue funded construction of a single facility and the net revenues of the facility pay for the debt.
- Where a bond issue funded construction of four facilities and the net revenues of **all four facilities pay for the debt.**
- Where a bond issue funded construction of four out of eight facilities and all eight facilities’ net revenues are pledged to pay the debt.
- Where a series of notes funded construction of a parking garage and the net revenues of parking operations paid for the facility.

The following **are not grounds for segment reporting:**

- A short-term loan is secured for operations. All fees are pledged to repay the loan.
- A statewide authority issued one bond issue for several revenue-backed projects, including the parking garage at the institution. The component unit pledged to the authority the net revenue from the parking structure. The authority is obligated to the bondholders. There is **no segment for the component unit, but there is a segment for the state authority.**

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<sup>13</sup> GASB 34, Paragraph 122 as amended by Exposure Draft – Proposed Statement of the Government Accounting Standards Board – *Basic Financial Statements and Management’s Discussion and Analysis – for State and Local Governments: Omnibus – an amendment of GASB Statements No. 21 and No. 34.* Paragraph 15.

- A multi-location system issues bonds covering three facilities at three different locations. The combined revenues from all three are pledged to pay the bonds. In the financial report that includes all three locations, the locations are segments. If one of the locations issues a separate report, that one location is not a segment.

Reporting is simple and lies within the footnotes. Three **condensed** financial statements are presented. The statement of net assets will only have current assets, capital assets, current liabilities, long-term liabilities and net assets. The statement of revenues, expenses and changes in net assets will have operating revenues, operating expenses and non-operating revenues. The statement of cash flows will only have the “bottom lines” of a full statement of cash flows.